

## SUMMARY

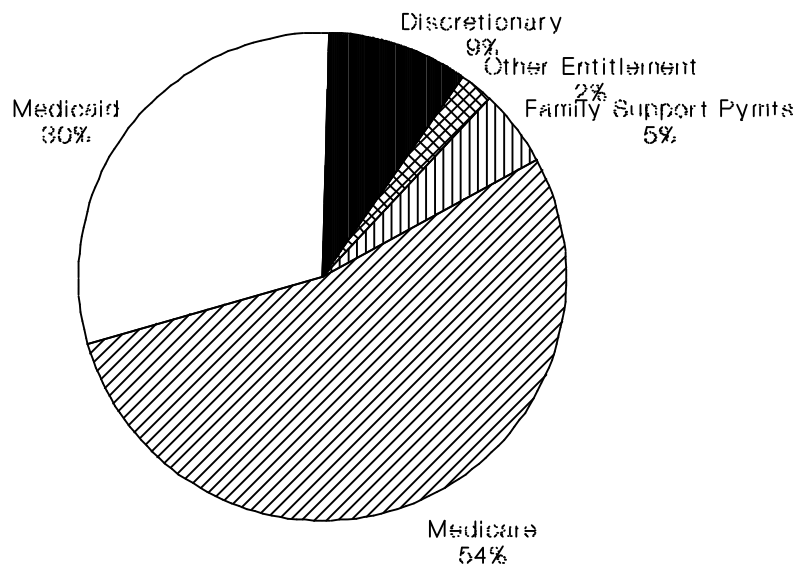
### DEPARTMENT OF HEALTH AND HUMAN SERVICES

(Dollars in millions)

	1995 <u>Actual</u>	1996 <u>Policy*</u>	1997 <u>Request</u>	Request <u>+/-Policy</u>
Budget Authority/Income ....	\$302,150	\$317,258	\$354,695	\$37,437
Outlays.....	\$303,107	\$327,463	\$354,126	\$26,663

\* Based on levels of the ninth CR, including an incremental policy adjustment.

#### FY 1997 DISTRIBUTION OF OUTLAYS



## SUMMARY

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### CREATING OPPORTUNITIES WHILE ENCOURAGING RESPONSIBILITY

The FY 1997 Budget proposes a balanced budget by FY 2002 through a combination of savings, responsible reforms, and good management. In so doing, the budget preserves our core values of protecting our most vulnerable Americans, especially senior citizens, people with disabilities, working families and children.

The FY 1997 Budget for the Department of Health and Human Services (HHS), totals \$354 billion in outlays, an increase of \$27 billion, or 8 percent, over the comparable FY 1996 amount. The discretionary portion of the HHS budget totals \$34 billion in budget authority, an increase of 5 percent over the FY 1996 policy level. The FY 1996 policy level is based on levels of the ninth continuing resolution, including an incremental policy adjustment.

HHS is a major part of the President's effort to realize a seven-year balanced budget through the combination of welfare reform and revision of the Medicare and Medicaid programs. Reform of these entitlement programs is a substantial part of the savings in the President's plan.

The President's Medicare plan strengthens and improves the program, reducing spending by a net \$124 billion over seven years and guaranteeing the solvency of the hospital insurance trust fund for more than a decade. Specific reforms give seniors more choices among private health plans, make Medicare more efficient and responsive to beneficiary needs, attack fraud and abuse through programs praised by law enforcement officials, cut the growth rate of provider payments, and hold the Part B premium at 25 percent of program costs.

Comprehensive welfare reform is a key component of our effort to promote self-reliant and stable families. The President has been working to make welfare a second chance rather than a way of life and is committed to signing a welfare bill that succeeds in moving people from welfare to work. Real welfare reform must emphasize work, responsibility, and family--imposing time limits, tough work requirements, and high standards upon parents to take responsibility for themselves and their children. Children should be protected and families must get the child care they need to go to work.

The President's FY 1997 Budget includes a major proposal to replace the Aid to Families with Dependent Children program with a time-limited conditional entitlement. This proposal would also increase funding for child care programs and improve child support enforcement measures. The Administration supports rewarding States while holding them accountable for their efforts to put people to work, not for simply cutting families off of welfare assistance. States would have the flexibility to design welfare programs which would meet the needs of their communities. This plan would save a projected \$40 billion over seven years. With the

support of Congress, we will enact changes to encourage parental responsibility, promote economic security, and protect families.

In addition to these reforms, HHS remains committed to a path of tough management and strategic investment in priority areas. The FY 1997 HHS Budget continues to promote health and science by increasing funding in key areas such as the National Institutes of Health, Ryan White AIDS Treatment grants, substance abuse and mental health treatment, and heightening our vigilance against emerging infectious diseases. The FY 1997 Budget also invests in Head Start, the Child Care and Development Block Grant, and a new Teen Pregnancy Prevention initiative.

## **STRENGTHENING MEDICARE AND MEDICAID**

### **Medicare Improvements that Expand Choices and Add Preventive Benefits**

The President's plan for improving choice in Medicare refines and enhances standards, increases the options available to Medicare beneficiaries, and expands the types of organizations offering Medicare products. It will improve Medicare's health plan payment coverage, foster continuous improvements in health plan quality, help beneficiaries become more informed about their choices, and level the playing field for Medicare managed care and Medicare supplemental coverage. Other changes begin the transformation of the traditional fee-for-service program from a bill-paying insurance program into a responsive health plan by giving Medicare authority to adopt many of the purchasing and quality techniques pioneered by private sector payors.

The budget also expands and improves Medicare managed care by:

- ensuring beneficiary protections while increasing the types of plans--including Preferred Provider Organizations (PPOs) and Provider Sponsored Networks (PSNs)--available to seniors; and
- instituting a coordinated open enrollment process--similar to that used by the Federal Employees Health Benefits Plan (FEHBP)--during which beneficiaries use comparative information to choose among managed care and supplemental insurance options.

In addition, the budget expands coverage of preventive benefits to include annual mammograms and the elimination of mammography coinsurance, colorectal cancer screening, and increased payments for flu shots. Finally, the budget introduces a respite care benefit to provide some relief for families caring for relatives with Alzheimer's disease.

### **Survey and Certification**

Ensuring the safety and quality of care provided by health facilities is one of HHS' most critical responsibilities. HHS contracts with State agencies to inspect health facilities providing services to Medicare and Medicaid beneficiaries to ensure compliance with Federal

health, safety, and program standards. Quality oversight efforts include initial inspections of providers who request participation in the Medicare program, annual recertification inspections of nursing homes and home health agencies (HHAs) as required by law, investigation into all long-term care facility complaints, and periodic recertification of other health care providers and suppliers.

In FY 1997, we are requesting a total of \$173.8 million for direct survey and certification activities and workloads. We expect to survey more than 31,000 facilities in FY 1997. This \$28 million increase over the FY 1996 policy level is necessary both to conduct initial inspections of more than 3,200 facilities expected to request Medicare participation (including the elimination of any prior year backlog), and to increase the frequency of annual surveys performed on non-long-term care facilities (e.g., End Stage Renal Disease facilities, hospices, rural health clinics). Congress did not fund the full FY 1996 President's request of \$162.1 million for this activity, appropriating \$145.8 million instead.

### **Medicaid Reform that Guarantees Coverage and Promotes State Flexibility**

The Administration is committed to Medicaid reform guided by the following principles:

- preserve the guarantee of coverage with meaningful benefits for the most vulnerable Americans;
- maintain a strong Federal/State partnership;
- enhance State flexibility while ensuring protection for beneficiaries and accountability to taxpayers.

The President's plan for Medicaid reforms the program and preserves the guarantee of health and long-term care coverage for the most vulnerable Americans. It saves \$59 billion over seven years responsibly, by limiting spending on a per-person basis (a "per capita cap") and reducing Disproportionate Share Hospital payments and retargeting them to hospitals that serve large numbers of Medicaid and uninsured patients.

The plan provides special payments for States to transition into the new system, and to meet the most pressing needs. It also gives States unprecedented new flexibility to administer their programs more efficiently. Finally, this plan retains current nursing home quality standards and continues to protect the spouses and other family members of nursing home residents from impoverishment.

### **Maintaining and Expanding Coverage for Working Americans**

The Administration's FY 1997 Budget contains several provisions to make health coverage more accessible and affordable for working Americans.

- The President's insurance market reforms will enable more Americans to maintain health insurance coverage when they change jobs and will stop insurance companies from denying coverage for pre-existing conditions.
- To put the self-employed on a more equal footing with other businesses, the reforms gradually raise the self-employed tax deduction from 30 percent to 50 percent.
- To give small businesses the purchasing clout that larger businesses have, the budget proposes \$25 million a year in grants that States can use for technical assistance and for setting up voluntary purchasing cooperatives.
- The President also proposes a four-year demonstration program to provide annual grants to States to provide health insurance for temporarily unemployed workers and their families. Under the program, States could provide up to six months of coverage for eligible workers and their families.

## **RESTORING TRUST AND UTILIZING INNOVATIVE APPROACHES TO MANAGEMENT**

### **Program Integrity**

As responsible managers of the public's money, the Secretary has made the integrity of Medicare and Medicaid a primary objective for the department. In FY 1997, the Federal Government will spend nearly \$316 billion to purchase health care services for 72 million low-income, elderly, and disabled persons through these programs. Unfortunately, the large sums of money in Medicare and Medicaid have made them prime targets for those who would steal, take advantage of loopholes, and otherwise mismanage program funds. Increasingly sophisticated schemes are siphoning taxpayer dollars and robbing beneficiaries of their health care security. Responding to this epidemic, the HHS Inspector General (IG), together with the Health Care Financing Administration (HCFA), and the Administration on Aging (AoA) launched a major effort in FY 1995 to attack fraud and abuse in Medicare and Medicaid. Entering into a partnership with State Medicaid Fraud Control Units (MFCU), the Department of Justice, the Federal Bureau of Investigation and other State and local law enforcement officials, HHS initiated a five-state anti-fraud and abuse demonstration as part of the Vice President's Reinventing Government, Phase II. This two-year demonstration, "Operation Restore Trust," is currently operating in New York, Illinois, Florida, Texas, and California and focuses on curbing fraud, waste and abuse in providing three of the fastest growing Medicare services: nursing facilities, home health, and durable medical equipment.

In FY 1997, we are seeking permanent legislation to expand Operation Restore Trust to all States and Medicare services. We will continue to work with MFCUs and law enforcement agencies to ensure that claims are properly paid in both Medicare and Medicaid. To achieve our objectives, two new HHS programs, along with new initiatives in the Department of Justice, designed specifically to fight health care fraud and abuse are proposed: the Medicare Anti-fraud and Abuse Program (MAAP) in the Office of the HHS Inspector General and the Medicare Benefit Integrity System (MBIS) in the Health Care Financing Administration.

These new mandatory programs will provide secure and dependable funding for anti-fraud and abuse efforts.

We are proposing \$97 million for MAAP in FY 1997, an increase of \$54 million over FY 1996 estimated Medicare-related IG spending. MAAP will expand current efforts in the HHS Office of Inspector General (IG) to identify and investigate cases of fraud and abuse in Medicare. Working closely with the FBI and the Department of Justice, the IG will help to ensure that program defrauders are brought to trial. As a result of the intensified efforts, the IG will identify problems and recommend corrective actions that may be taken by HCFA, State Medicaid agencies and Medicare contractors.

MBIS is proposed to be funded at \$500 million in FY 1997, an increase of \$104 million over current spending levels. This program will replace current Medicare payment safeguards activity. MBIS will emphasize front-end review of Medicare claims to ensure appropriateness of care, to determine if other parties are liable for payment, and that claims are paid right the first time. With MBIS, we will redesign and upgrade program operations and data systems to close the door on defrauders and abusers before they can take advantage of the program and its beneficiaries.

### **Right-Sizing the HHS Workforce**

Through its Reinventing Government initiative, this Administration is creating a government that works better and costs less. As part of this effort, we are rethinking our business at HHS, making sure that our programs work well and achieve their intended results.

We have committed ourselves to a seven-year right-sizing effort which will reduce the department's personnel by 7,000 FTE by the year 2000, bringing HHS in line with the President's plan to shrink the size of government. Using a combination of early-outs, selective hiring freezes and buy-outs, we reduced HHS staffing by nearly 3,300 FTE, or 5 percent, between FY 1994 and FY 1995, making a substantial down payment on our plan to right-size HHS. Staffing levels will remain at FY 1995 levels through both FY 1996 and FY 1997, and then decline by 2,500 FTE in the following three years.

### **Innovative Approaches to Management**

In March 1995, the Social Security Administration (SSA) became an independent agency with approximately 50 percent of HHS staff transferring to this new independent agency. This transition was handled smoothly and in a timely manner with minimal personnel disruption. The end-product was two viable organizations. This was accomplished through the use of careful planning and is a significant accomplishment by HHS and SSA.

Pursuant to the Vice President's Reinventing Government program, we closely examined and made changes to the remaining organizations within HHS. An entire management layer was eliminated by consolidating the Office of the Assistant Secretary for Health (OASH) into Departmental Management (DM). This consolidation creates a unified corporate headquarters

for the Department that brings expertise in public health and science closer to the Secretary.

This merger and reconfiguration creates a new role for the Assistant Secretary for Health (ASH) who becomes the head of the Office of Public Health and Science (OPHS). The ASH will act as senior advisor for public health and science to the Secretary and provide senior professional leadership in the Department on population-based public health and clinical preventive services. The ASH also directs program offices within the OPHS; provides professional leadership on cross-cutting Departmental public health and science initiatives; and at the direction of the Secretary provides assistance in managing the implementation of Secretarial decisions for the PHS operating divisions. All Public Health Service Operating Divisions (OPDIVs) now report directly to the Secretary. The OPDIVs, along with the new OPHS and the Regional Health Administrators, continue to constitute the U.S. Public Health Service, with the Secretary at its head.

We have also merged the operations of the Assistant Secretary for Management and Budget with the Assistant Secretary for Personnel Management. The final result of these reorganizations is a smaller, more focused Office of the Secretary.

Finally, in the wake of SSA's departure and the DM/OASH merger, the Program Support Center (PSC) was created in FY 1996 as a new self-supporting operating division whose sole purpose is the provision of a broad range of administrative services. As the first true business enterprise at HHS, the PSC will provide services on a competitive, fee-for-service basis to customers throughout HHS and to other Federal agencies. This market based approach provides incentives for customers to reduce their costs by decreasing demands for service, and for providers to reduce their costs to remain competitive. The goal of the PSC is to further streamline and minimize duplication of functions in the provision of cost-effective services.

The financing for the PSC has also been streamlined. All activities of the OS Working Capital Fund will be merged into the Service and Supply Fund (SSF) in FY 1997. A new SSF charter has been approved, establishing a new Board of Directors chaired by the Deputy Secretary, with the Assistant Secretary for Management and Budget as the vice-chair. This governing body, designed to provide customer involvement on cost and service levels, includes representatives from each HHS Operating Division, the chief management officers of the PSC, and the Inspector General's Office.

## **BUILDING STRONG FOUNDATIONS AND SAFE PASSAGES**

Today's young people are tomorrow's leaders. They will guide our democracy in the 21st century and, therefore, must be prepared to accept the challenges they will face. In order to ensure a positive future for our Nation's children, we need to work together to promote their healthy growth and development and to create safe, stable families in economically secure communities. The Department is committed to this goal and has developed a multifaceted strategy to promote strong futures for all children and youth. This strategy includes investing in Strong Foundations--the building blocks of success for children and

families, and Safe Passages--the tools for navigating the often turbulent journey from childhood to adulthood.

### **Head Start**

A child's physical and mental well-being is dependent upon a strong foundation. Head Start programs help to establish that foundation for many disadvantaged children and families by providing comprehensive education, nutrition, health services and social services. In FY 1997, we are committed to expanding enrollment and making that opportunity available to more children. A budget increase of \$350 million over the FY 1996 policy level will allow us to serve an additional 40,000 children. As part of this increase, an additional 1,200 infants and toddlers will be able to participate in the Department's Early Head Start program. This request will also allow us to continue making important quality improvements to local Head Start programs to ensure that children and families receive the highest quality services possible. Head Start is just one of the many programs funded by HHS which builds strong foundations, laying the groundwork for the critical journey through adolescence.

### **Child Care and Development Block Grant/Child Welfare**

The availability of quality child care for low-income families is critical to maintain economic self-sufficiency and to promote healthy child development. The FY 1997 Budget request for the Child Care and Development Block Grant (CCDBG) is \$1.049 billion. Over 750,000 children currently receive services. CCDBG also supports activities to improve the quality and availability of child care across the nation.

In addition, in FY 1997, the budget includes \$419 million in discretionary funding for a range of programs that help States and local communities to protect children by strengthening families and preventing abuse; intervening when families are in crisis; and when necessary, making placement decisions to ensure children's safety. In 1993, States received reports on nearly three million children who were alleged victims of child abuse and neglect, reflecting a 25 percent increase in the rate of children reported since 1988.

### **Teen Pregnancy Prevention**

Teen pregnancy is a serious social problem for our Nation. Not only do we spend scarce health and welfare dollars to assist families begun by teenagers, but our Nation also suffers as we fail to realize the full potential of many of these teens and their children. In an effort to address this problem, the Department will launch a \$30 million Teen Pregnancy Prevention Initiative in FY 1997. These funds will be used to implement and evaluate promising prevention strategies in communities which have demonstrated a commitment to community problem solving. This initiative is an important step forward to ensure safe passages for our Nation's adolescents.



## **PROMOTING HEALTH AND SCIENCE**

### **National Institutes of Health - Biomedical/Behavioral Research**

The FY 1997 Budget continues the Administration's high-priority investment in biomedical and behavioral research to secure the long-term health of Americans. The proposed \$12.4 billion for NIH is a \$467 million, or 4 percent, increase over FY 1996. NIH is devoted to expanding fundamental knowledge about living systems and the causes of disease, and to applying that knowledge to improve the health of human beings. Chief among NIH's mechanisms to accomplish this are investigator-initiated research project grants which receive an increase of \$166 million and fund 6,827 new and competing research grants and a record 25,400 total grants in FY 1997.

The other prominent part of the FY 1997 Budget request for NIH is the revitalization of the operations and facilities of the Warren G. Magnuson Clinical Center. The request includes a total of \$310 million to build a new state-of-the-art Clinical Center with replacement hospital and laboratories for the more than 40-year-old Clinical Center on the NIH campus. Furthermore, the FY 1997 Budget requests all of NIH's AIDS-related funds--\$1.4 billion--in a single consolidated account for the Office of AIDS Research to ensure a coordinated and flexible response to the AIDS epidemic.

### **Ryan White**

The FY 1997 request of \$807 million for the Health Resources and Services Administration's Ryan White AIDS treatment activities, a \$32 million increase over the FY 1996 policy level, continues our commitment to improve the quality and availability of care for individuals and families with HIV and AIDS. Funds will be used to expand activities in all four program areas including Emergency Relief for Cities, improve services for underserved and hard to reach populations, and support primary care services for an additional five to ten thousand individuals who are infected with, or at-risk of, HIV infection. The Administration is also proposing a \$52 million budget amendment in FY 1996 to help states improve access to new promising HIV therapies, including protease inhibitors, a new class of AIDS drugs which are beginning to be approved by the Food and Drug Administration.

### **Providing Health Care to Native Americans**

The FY 1997 President's Budget demonstrates our ongoing commitment to improving the health of American Indians and Alaska Natives and also in assisting those tribes who wish to take over the operation of their local health programs from the Indian Health Service. An increase of \$43 million is requested to provide water and waste disposal service to existing Indian homes. The provision of such services, the top priority of the National Indian Health Board, is critical in reducing incidents of waterborne and other communicable diseases, gastroenteric disease, and neonatal death rates. Increased funding (+\$16 million) is also requested for new health initiatives for women, children, elders, and urban Indians. The

President's Budget contains an additional \$46 million to cover the contract support costs incurred by tribes in their operation of local programs.

### **Substance Abuse and Mental Health**

In light of recent trends in drug use and mental illness in the country, the President's Budget also proposes an increase of \$244 million to treat and prevent mental illness and substance abuse. An expanded knowledge development and application program will provide critically needed information about managed care; early childhood problems; individuals with, or at risk for, both mental health and substance abuse problems; services in the criminal justice system; and application of knowledge to improve service delivery systems at the local and State levels. The budget also proposes \$1.5 billion for both the Substance Abuse and Mental Health Performance Partnership State grants.

### **New and Emerging Infectious Diseases**

Emerging infectious disease outbreaks pose a threat to everyone in the country. Our vulnerability to waterborne, foodborne, and airborne infections has been dramatically demonstrated and widely publicized with recent disease outbreaks caused by *Cryptosporidium* parasites in the water supply in Milwaukee; *E. coli* 0157:H7 bacteria in undercooked hamburgers in the Pacific Northwest; and hantavirus from rodents in the Southwest. The request includes an increase of \$26 million, or a total of \$45 million, to double our investment in the Centers for Disease Control and Prevention national prevention strategy--"Addressing Emerging Infectious Disease Threats." This investment will facilitate rapid identification and investigation of infectious disease outbreaks, reduce the burden of illness due to infections, and reduce associated health care costs.

## HHS BUDGET BY OPERATING DIVISION

(Dollars in millions)

	<u>1995</u> <u>Actual</u>	<u>1996</u> <u>Policy*</u>	<u>1997</u> <u>Request</u>	<u>Request</u> <u>+/-Policy</u>
Food and Drug Administration				
BA.....	\$882	\$878	\$878	\$0
Outlays.....	860	877	881	4
Health Resources and Services Administration				
BA.....	3,237	3,263	3,309	46
Outlays.....	2,613	2,955	3,130	175
Indian Health Service				
BA.....	1,960	2,000	2,174	174
Outlays.....	2,008	1,928	2,042	114
Centers for Disease Control and Prevention				
BA.....	2,125	2,155	2,230	75
Outlays.....	1,786	1,971	2,066	95
National Institutes of Health				
BA.....	11,284	11,939	12,406	467
Outlays.....	10,875	10,916	11,949	1,033
Substance Abuse and Mental Health Services Administration				
BA.....	2,195	1,854	2,098	244
Outlays.....	2,444	2,105	2,024	-81
Agency for Health Care Policy and Research				
BA.....	141	80	90	10
Outlays.....	139	129	97	-32
Health Care Financing Administration				
BA.....	245,796	261,231	295,950	34,719
Outlays.....	248,924	272,475	297,219	24,744
Administration for Children and Families				
BA.....	33,178	32,610	34,296	1,686
Outlays.....	31,993	32,875	33,488	613

## HHS BUDGET BY OPERATING DIVISION, Continued

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	(Dollars in millions)			
	<u>1995</u> <u>Actual</u>	<u>1996</u> <u>Policy*</u>	<u>1997</u> <u>Request</u>	<u>Request</u> <u>+/-Policy</u>
Administration on Aging				
BA.....	\$876	\$828	\$828	\$0
Outlays.....	951	776	819	43
Departmental Management				
BA.....	230	172	178	6
Outlays (Federal Funds)...	262	204	157	-47
Office of Inspector General				
BA.....	79	74	75	1
Outlays (Federal Funds)...	89	74	75	1
Program Support Center				
BA.....	212	220	229	9
Outlays (Federal Funds)...	208	224	225	1
Receipts				
BA.....	-45	-46	-46	0
Outlays.....	-45	-46	-46	0
TOTAL, HHS				
BA.....	\$302,150	\$317,258	\$354,695	\$37,437
Outlays.....	\$303,107	\$327,463	\$354,126	\$26,663
Full-time Equivalents.....	58,924	58,924	58,924	0

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## COMPOSITION OF THE HHS BUDGET

(Dollars in millions)

	1995 <u>Actual</u>	1996 <u>Policy*</u>	1997 <u>Request</u>	Request <u>+/-Policy</u>
<u>Entitlement Programs (outlays):</u>				
Medicare .....	\$180,097	\$197,427	\$210,106	+\$12,679
Medicaid .....	89,070	94,892	105,571	+10,679
Family Support Payments to States	17,133	17,366	17,955	+589
Foster Care and Adoption Assist .	3,244	3,740	4,144	+404
Social Services Block Grant.....	2,797	3,183	2,839	-344
JOB Opportunities and Basic Skills	1,012	1,000	1,000	0
State Legalization Impact Assist. Grts	4,000	0	0	0
Family Support and Preservation .	150	225	201	-24
Other/Financing Offsets ...	(26,203)	(21,918)	(20,537)	+1,381
Subtotal, Entitlement Programs:				
Outlays.....	\$271,300	\$295,915	\$321,279	+\$25,364
<u>Discretionary Programs (Budget Authority):</u>				
National Institutes of Health .....	\$11,284	\$11,939	\$12,406	\$467
Other Public Health Programs .....	10,335	10,050	10,587	537
HCFA Program Management .....	2,178	2,132	2,202	70
Children & Family Services Programs	4,876	4,825	5,280	455
Low Income Home Energy Assistance	1,419	1,000	1,000	0
Grants to States for Child Care ....	948	935	1,049	114
Administration on Aging . .....	876	828	828	0
Refugee & Entrant Resettlement..	406	405	382	-23
Departmental Management .....	171	151	154	3
Office for Civil Rights .....	22	19	22	3
Office of Inspector General .....	79	74	75	1
Subtotal, Discretionary Programs:				
Budget Authority .....	\$32,594	\$32,358	\$33,985	\$1,627
Outlays.....	31,807	31,548	32,847	1,299
TOTAL, HHS OUTLAYS .....	\$303,107	\$327,463	\$354,126	+\$26,663

\* Based on levels of the ninth CR, including an incremental policy adjustment.

\*\* Does not add due to rounding.